

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Upper Peninsula Substance Enforcement Te	County Marquette
Fiscal Year End 9/30/2006	Opinion Date 12/22/2006	Date Audit Report Submitted to State 1-30-07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | |
|-----|-------------------------------------|-------------------------------------|---|
| | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Check each applicable box below. (See instructions for further detail.) |
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, P.L.C.		Telephone Number 906-225-1166	
Street Address 102 W. Washington St., Ste. 109		City Marquette	State MI
Zip 49855			
Authorizing CPA Signature 	Printed Name Michael Greutz, CPA	License Number 1101027988	

**UPPER PENINSULA
SUBSTANCE ENFORCEMENT TEAM
FINANCIAL STATEMENTS
For the Year Ended September 30, 2006**

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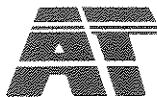
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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Upper Peninsula Substance
Enforcement Team
P.O. Box 364
Gwinn, MI. 49841

We have audited the accompanying financial statements of the governmental activities of the Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2006, which collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Upper Peninsula Substance Enforcement Team's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Upper Peninsula Substance Enforcement Team as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2006 on our consideration of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and other matters and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and budgetary comparison information on pages 5 through 8 and page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement

Upper Peninsula Substance
Enforcement Team
P.O. Box 364
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and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Upper Peninsula Substance Enforcement Team. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

December 22, 2006

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Upper Peninsula Substance Enforcement Team's financial performance provides an overview of the Upper Peninsula Substance Enforcement Team's financial activities for the year ended September 30, 2006. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the Upper Peninsula Substance Enforcement Team as a whole increased by \$5,785 as a result of this year's operations.
- The general fund reported an increase in fund balance of \$7,759.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the Upper Peninsula Substance Enforcement Team as a whole and present a longer-term view of the Upper Peninsula Substance Enforcement Team's finances. Expenditure schedules for each Upper Peninsula Substance Enforcement Team Program start on page 19. These statements report the Upper Peninsula Substance Enforcement Team's operations in more detail than the Agency-wide statements showing expenditures for each program by main expense category.

Reporting the Upper Peninsula Substance Enforcement Team as a Whole

Our analysis of the Upper Peninsula Substance Enforcement Team as a whole begins on page 6. One of the most important questions asked about the Upper Peninsula Substance Enforcement Team's finances is "Is the Upper Peninsula Substance Enforcement Team as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Upper Peninsula Substance Enforcement Team as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Upper Peninsula Substance Enforcement Team's *net assets* and changes in them. You can think of the Upper Peninsula Substance Enforcement Team's net assets - the difference between assets and liabilities - as one way to measure the Upper Peninsula Substance Enforcement Team's financial health, or *financial position*. Over time, *increases or decreases* in the Upper Peninsula Substance Enforcement Team's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Upper Peninsula Substance Enforcement Team's client base and the condition of the Upper Peninsula Substance Enforcement Team's capital assets, to assess the *overall financial health* of the Upper Peninsula Substance Enforcement Team.

All of the Upper Peninsula Substance Enforcement Team's activities are reported as governmental activities, detailed in the statement of net assets and the statement of activities. All of the Upper Peninsula Substance Enforcement Team's basic services are reported here. Upper Peninsula Substance Enforcement Team activities are primarily funded by state and local sources of funds and forfeitures.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Reporting on the Upper Peninsula Substance Enforcement Team's General Fund

All Upper Peninsula Substance Enforcement Team programs and services are reported in the General Fund. Our analysis of the Upper Peninsula Substance Enforcement Team's general fund begins on page 19. This financial statement provides detailed information on Upper Peninsula Substance Enforcement Team's expenditures by reporting unit.

- *Governmental funds* – All of the Upper Peninsula Substance Enforcement Team's services are reported in a single governmental fund, which details how money flows into and out of the fund, and the balances left at year-end that is available for spending. The report uses an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Upper Peninsula Substance Enforcement Team's general government operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Upper Peninsula Substance Enforcement Team's programs.

The Upper Peninsula Substance Enforcement Team as a Whole

Table I provides a summary of the Upper Peninsula Substance Enforcement Team's net assets as of September 30, 2006 and 2005.

Table 1		
Net Assets		
	<u>Governmental Activities - 2006</u>	<u>Governmental Activities - 2005</u>
Current and other assets	\$171,243	\$232,446
Capital assets, net	<u>66,054</u>	<u>68,028</u>
Total Assets	<u>237,297</u>	<u>300,474</u>
Current liabilities	\$ 12,324	\$ 81,286
Non-current liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>12,324</u>	<u>81,286</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 66,054	\$ 68,028
Restricted	<u>-</u>	<u>-</u>
Unrestricted	<u>158,919</u>	<u>151,160</u>
Total Net Assets	<u>\$224,973</u>	<u>\$219,188</u>

Net assets of the Upper Peninsula Substance Enforcement Team's governmental activities stood at \$224,973. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$158,919.

The results of this year's operations for the Upper Peninsula Substance Enforcement Team as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2006 and revenue and expense in fiscal year 2006 compared to revenue and expense in fiscal year 2005.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Table 2
Change in Net Assets

	Governmental Activities – 2006	Governmental Activities – 2005
Revenues		
Federal Sources	\$5,632	\$363,790
Local Sources	95,297	409,853
Other Sources	<u>58,530</u>	<u>83,332</u>
Total Revenues	<u>159,459</u>	<u>856,975</u>
Program Expenses		
Operating expenditures	143,223	883,800
Forfeiture expenditures	10,451	8,726
Capital outlay	<u>-</u>	<u>-</u>
Total Expenses	<u>153,674</u>	<u>892,526</u>
Increase (decrease) in net assets	5,785	(35,551)
Net assets, beginning	<u>219,188</u>	<u>254,739</u>
Net Assets, Ending	<u>\$224,973</u>	<u>\$219,188</u>

The Upper Peninsula Substance Enforcement Team's total revenues were \$159,459. The total cost of all programs and services was \$153,674, leaving an increase in net assets of \$5,785. Our analysis below considers in more detail the operation of the Upper Peninsula Substance Enforcement Team's programs (in governmental activities) during 2006.

Governmental Activities

To understand the operation of the Upper Peninsula Substance Enforcement Team, its programs and services can be seen as falling into one broad category: those basic to local public safety relating to substance enforcement in the Upper Peninsula. The Upper Peninsula Substance Enforcement Team's basic public safety services are funded by state grants, local funding and forfeitures. Local funding consists of local government contributions.

THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FUNDS

As the Upper Peninsula Substance Enforcement Team completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a fund balance of \$158,919, an increase of \$7,759 from the beginning of the year. This is an improvement as fund balance had decreased \$7,057 for fiscal year ended September 30, 2005.

In prior years the Upper Peninsula Substance Enforcement Team had recorded the expense and subsequent reimbursements for the Byrne Memorial Formula and Local Law Enforcement Block Grant, CFDA 16.738 ODCP #70768-9-06-B, awarded to the Michigan Department of State Police from the Office of Justice Programs, Bureau of Justice Assistance, Department of Justice. These funds amounted to approximately \$363,790 in federal dollars and \$363,790 in local match dollars for fiscal year ended September 30, 2005. However for fiscal year ended September 30, 2006, the determination was made by the Michigan State Police, the grantee, that the Upper Peninsula Substance Enforcement Team is not a sub-recipient under the Byrne Memorial Formula and Local Law Enforcement Block Grant, CFDA 16.738.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

General Fund Budgetary Highlights

The Upper Peninsula Substance Enforcement Team creates a budget based on operating expenses for the year. This budget does not include other revenues and expenditures.

The actual revenues for fiscal years 2006 were \$159,459 and not budgeted and actual expenditures were \$9,950 less than the budget of \$161,650.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal years 2006 and 2005, the Upper Peninsula Substance Enforcement Team had \$ 66,054 and \$68,028 invested in a variety of capital assets including land, buildings, and other equipment, respectively. (See table 3 below)

Table 3 Capital Assets at Year-End (Net of Depreciation)		
	Governmental Activities – 2006	Governmental Activities – 2005
Land	\$ 5,000	\$ 5,000
Buildings	61,054	63,027
Equipment and furnishings	-	1
Land improvements	-	-
Construction in progress	-	-
Totals	<u>\$66,054</u>	<u>\$68,028</u>

There were no capital asset additions for fiscal years 2006 and 2005. There was \$1,974 and \$28,494 in depreciation expense for the fiscal years 2006 and 2005, respectively.

Debt

The Upper Peninsula Substance Enforcement Team had \$-0- in long term liabilities at year end of fiscal years 2006 and 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Upper Peninsula Substance Enforcement Team's management staff bases their budget on the results of the previous year's activity and makes revisions as needed.

CONTACTING THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Upper Peninsula Substance Enforcement Team's finances and to show the Upper Peninsula Substance Enforcement Team's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Upper Peninsula Substance Enforcement P.O. Box 364, Gwinn, MI 49841.

Upper Peninsula Substance Enforcement Team
Governmental Funds Balance Sheet / Statement of Net Assets
September 30, 2006

	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 56,758	\$ -	\$ 56,758
Accounts receivable	7,040	-	7,040
Due from local government units	107,444	-	107,444
Total Current Assets	<u>171,243</u>	<u>-</u>	<u>171,243</u>
Non Current Assets			
Capital assets - net	-	66,054	66,054
Total Non Current Assets	<u>-</u>	<u>66,054</u>	<u>66,054</u>
TOTAL ASSETS	<u>\$ 171,243</u>	<u>66,054</u>	<u>237,297</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 12,324	-	12,324
Deferred forfeiture	-	-	-
Total Current Liabilities	<u>12,324</u>	<u>-</u>	<u>12,324</u>
Non Current Liabilities			
Notes payable	-	-	-
Total Non Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>12,324</u>	<u>-</u>	<u>12,324</u>
FUND BALANCE / NET ASSETS			
Fund Balance			
Unrestricted	158,919	(158,919)	-
TOTAL FUND BALANCE	<u>158,919</u>	<u>(158,919)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 171,243</u>		
Net Assets			
Invested in capital assets - net of related debt		66,054	66,054
Unrestricted		158,919	158,919
TOTAL NET ASSETS		<u>\$ 66,054</u>	<u>\$ 224,973</u>

The notes to the financial statements are an integral part of this statement.

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance / Statement of Activities
For the year ended September 30, 2006

	Modified Accrual Basis	Adjustments	Statement of Activities
REVENUES:			
Federal sources	\$ 5,632	\$ -	\$ 5,632
Local sources			
Contributions	15,297	-	15,297
Grants	80,000	-	80,000
Other sources			
Forfeitures	49,447	-	49,447
Restitution	1,955	-	1,955
Interest income	2,317	-	2,317
Reimbursements	4,811	-	4,811
TOTAL REVENUES	<u>159,459</u>	<u>-</u>	<u>159,459</u>
EXPENDITURES			
Operating expenses	141,249	1,974	143,223
Forfeiture expenses	10,451	-	10,451
Capital outlay	-	-	-
TOTAL EXPENDITURES	<u>151,700</u>	<u>1,974</u>	<u>153,674</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>7,759</u>	<u>(1,974)</u>	<u>5,785</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	<u>151,160</u>	<u>68,028</u>	<u>219,188</u>
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 158,919</u>	<u>\$ 66,054</u>	<u>\$ 224,973</u>

The notes to the financial statements are an integral part of this statement.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Upper Peninsula Substance Enforcement Team is an unincorporated interagency of numerous law enforcement agencies in Upper Michigan. The participating agencies entered into this agreement to create the Upper Peninsula Substance Enforcement Team for the purpose of combining their efforts towards the enforcement of narcotics and controlled substance laws of the State of Michigan.

The financial statements of the Upper Peninsula Substance Enforcement Team have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Upper Peninsula Substance Enforcement Team are described below.

(1) REPORTING ENTITY

In evaluating the Upper Peninsula Substance Enforcement Team as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Upper Peninsula Substance Enforcement Team may or may not be financially accountable and, as such, be includable within the Upper Peninsula Substance Enforcement Team's financial statements.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Upper Peninsula Substance Enforcement Team's basic financial statement is government-wide (reporting the Upper Peninsula Substance Enforcement Team as a whole). All the Upper Peninsula Substance Enforcement Team's operations are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Upper Peninsula Substance Enforcement Team's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Upper Peninsula Substance Enforcement Team first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of the Upper Peninsula Substance Enforcement Team's functions. The functions are supported by state grants, local contributions and forfeitures. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus is more on the sustainability of the Upper Peninsula Substance Enforcement Team as an entity and the change in the Upper Peninsula Substance Enforcement Team's net assets resulting from the current year's activities.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Upper Peninsula Substance Enforcement Team:

General Fund - General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The Upper Peninsula Substance Enforcement Team reports the following major governmental funds:

The **General Fund** is the Upper Peninsula Substance Enforcement Team's primary operating fund. It accounts for all financial resources of the Upper Peninsula Substance Enforcement Team.

(3) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(4) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting - The Upper Peninsula Substance Enforcement Team follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Upper Peninsula Substance Enforcement Team Administrator submits to the Upper Peninsula Substance Enforcement Team's Board of Health proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Opportunities exist for public comment during the budget process since all action by the Board of Health occurs in open public hearings.
- c. Pursuant to statute, prior to September 30 of each year the budget for the ensuing year is legally enacted through adoption of the Annual Operating Budget.
- d. The general statute governing Upper Peninsula Substance Enforcement Team budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Upper Peninsula Substance Enforcement Team's Board of Health, through policy action, specifically directs the Administrator not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Upper Peninsula Substance Enforcement Team adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board of Health, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.

Cash Equivalents and Investments – For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Upper Peninsula Substance Enforcement Team as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land improvements	20 years
Building, structures and improvements	40 years
Equipment	5-20 years
Vehicles	5 years

Long-Term Liabilities – In the government-wide financial statements fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE B – CASH AND INVESTMENTS:

Cash and Equivalents

The Organization's cash and equivalents, as reported in the Statement of Net Assets, consist of the following:

Checking account	\$46,758
Petty cash	10,000
Total	<u>\$56,758</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. State law does not require and the Organization does not have a deposit policy for deposit custodial credit risk. The carrying amounts of Upper Peninsula Substance Enforcement Team's deposits with financial institutions were \$46,758 and the bank balance was \$47,289. The bank balance is categorized as follows:

Amount insured by the FDIC	\$47,289
Amount uncollateralized and uninsured	-
TOTAL	<u>\$47,289</u>

The Organization has no investments at September 30, 2006.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS

The \$107,444 due from local government units represents the forfeited cash proceeds from the sale of property that is held by the City of Escanaba in a third party fiduciary relationship according to state and federal law.

NOTE D – CAPITAL ASSETS:

Capital asset activity of the Upper Peninsula Substance Enforcement Team for the current year was as follows:

	Balances 9/30/05	Additions	Deletions	Balances 9/30/06
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Subtotal	5,000	-	-	5,000
Capital assets being depreciated:				
Land Improvements	-	-	-	-
Buildings	66,976	-	-	66,976
Equipment	132,601	-	-	132,601
Total Capital Assets Being Depreciated	199,577	-	-	199,577
Less Accumulated Depreciation:				
Land Improvements	-	-	-	-
Buildings	(3,948)	(1,974)	-	(5,922)
Equipment	(132,601)	-	-	(132,601)
Total Accumulated Depreciation	(136,549)	(1,974)	-	(138,523)
Governmental Activities Capital Assets, Net	\$ 68,028	\$ (1,974)	\$ -	\$ 66,054

NOTE E – CHANGE IN GRANT REPORTING

In prior years the Upper Peninsula Substance Enforcement Team had recorded the expense and subsequent reimbursements for the Byrne Memorial Formula and Local Law Enforcement Block Grant, CFDA 16.738 ODCP #70768-9-06-B, awarded to the Michigan Department of State Police from the Office of Justice Programs, Bureau of Justice Assistance, Department of Justice. These funds amounted to approximately \$363,790 in federal dollars and \$363,790 in local match dollars for fiscal year ended September 30, 2005. However for fiscal year ended September 30, 2006, the determination was made by the Michigan State Police, the grantee, that the Upper Peninsula Substance Enforcement Team is not a sub-recipient under the Byrne Memorial Formula and Local Law Enforcement Block Grant, CFDA 16.738.

Required Supplemental Information

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the year ended September 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ -	\$ 5,632	\$ 5,632
Local sources				
Contributions	-	-	15,297	15,297
Grants	-	-	80,000	80,000
Other sources				
Forfeitures	-	-	49,447	49,447
Restitution	-	-	1,955	1,955
Interest income	-	-	2,317	2,317
Reimbursements	-	-	4,811	4,811
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>159,459</u>	<u>159,459</u>
EXPENDITURES:				
Operating	156,650	156,650	141,249	15,401
Forfeiture	5,000	5,000	10,451	(5,451)
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>161,650</u>	<u>161,650</u>	<u>151,700</u>	<u>9,950</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(161,650)</u>	<u>(161,650)</u>	<u>7,759</u>	<u>169,409</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	151,160	151,160	151,160	-
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ (10,490)</u>	<u>\$ (10,490)</u>	<u>\$ 158,919</u>	<u>\$ 169,409</u>

Additional Information

Upper Peninsula Substance Enforcement Team
Schedule of Operating Expenditures
For the year ended September 30, 2006

OPERATING EXPENDITURES		
Personnel	\$	6,775
Communications		8,495
Contractual		-
Insurance		3,044
Professional services		2,960
Supplies		7,249
Transportation		59,721
Training		1,485
Utilities		9,063
Miscellaneous		42,457
TOTAL OPERATING EXPENDITURES	\$	<u>141,249</u>

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Upper Peninsula Substance Enforcement Team
PO Box 364
Gwinn, Michigan 49841

We have audited the accompanying financial statements of the governmental activities of Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2006, and have issued our report thereon dated December 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Upper Peninsula Substance Enforcement Team's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Peninsula Substance Enforcement Team's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate letter to management of the Upper Peninsula Substance Enforcement Team dated December 22, 2006, as item 06-1.

This report is intended solely for the information and use of management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 22, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Upper Peninsula Substance Enforcement Team (U.P.S.E.T.)

Report to Management Letter

For the Year Ended September 30, 2006

Upper Peninsula Substance Enforcement Team
P.O. Box 364
Gwinn, MI. 49841-0364

In planning and performing our audit of the financial statements of Upper Peninsula Substance Enforcement Team for the year ended September 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted no matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Upper Peninsula Substance Enforcement Team's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

INSTANCES OF NON-COMPLIANCE

Uniform Budgeting and Accounting Act (P.A. 621)

06-1 Condition/Criteria: The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures shall be filed with the State Treasurer and reported to the Attorney General.

Cause of Condition: Lack of knowledge of budgeting requirements.

Effect: As Upper Peninsula Substance Enforcement Team did not budget for revenues for the year ended September 30, 2006, the organization was found to be in violation of the legal and contractual provision of Public Act 621.

Recommendation: Upper Peninsula Substance Enforcement Team should seek guidance to adopt a budget compliant with Public Act 621, the Uniform Budgeting and Accounting Act.

- Contact Person(s) Responsible for Correction:
 - Det./Lt. Jeff Racine, Commander
- Corrective action planned:
 - Adopt a budget meeting the requirements of Public Act 621
- Anticipated completion date:
 - September 30, 2007

Management Response – Corrective Action Plan: A budget will be formally adopted in accordance with the requirements of Public Act 621.

Segregation of Duties

06-2 Condition/Criteria: Lack of segregation of duties in the accounting applications of Upper Peninsula Substance Enforcement Team

Cause of Condition: Limited staff available to perform accounting applications

Effect: The most crucial areas are cash management and cash reconciliation, where the potential exists for intentional or unintentional errors to be made and not detected by employees in the normal course of operations on a timely basis.

Recommendation: We recommend separation of duties for cash handling be implemented to the extent possible and bank statements be opened and reviewed by the Commander before forwarding to the bookkeeper. We would also like to take this opportunity to remind the board of its oversight responsibilities in relation to financial reporting.

- Contact Person(s) Responsible for Correction:
 - Det./Lt. Jeff Racine, Commander
 - Chief Jim Hansen, Chairman of the Board
- Corrective action planned:
 - Det./Lt. Jeff Racine will open and review all bank statements prior to forwarding to the bookkeeper.
 - The board will continue to observe its oversight responsibilities in relation to financial reporting.
- Anticipated completion date:
 - September 30, 2007

Management Response: Management concurs.

This report is intended solely for the information and use of Upper Peninsula Substance Enforcement Team's management, and others within the Administration.

We appreciate and would like to thank Upper Peninsula Substance Enforcement Team's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 22, 2006